

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

DECEMBER 31, 2007

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

ALTA, IOWA

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ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

ALTA, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
C. Alan Wadsley	Trustee	June 2008
Kevin Walsh	Trustee	June 2009
Jeff James	Trustee	June 2010
Ron Gullickson	Trustee	June 2011
Dennis Weber	Trustee	June 2012

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Alta Municipal Broadband Communications Utility  
Alta, Iowa

We have audited the accompanying balance sheet of Alta Municipal Broadband Communications Utility, a component unit of City of Alta, as of and for the year ended December 31, 2007, and the related statement of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alta Municipal Broadband Communications Utility as of December 31, 2007, and the respective changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The Utility has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2008, on our consideration of Alta Municipal Broadband Communications Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

July 8, 2008



ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

BALANCE SHEET  
DECEMBER 31, 2007

Exhibit A

ASSETS

	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>
<u>CAPITAL ASSETS</u>			
Utility plant in service	\$136,425	\$830,562	\$966,987
Less accumulated depreciation	68,950	505,900	574,850
Total net capital assets	<u>67,475</u>	<u>324,662</u>	<u>392,137</u>
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	288,032	18,940	306,972
Accounts receivable	49,595	30,010	79,605
Prepaid expenses	2,073	2,028	4,101
Total current assets	<u>339,700</u>	<u>50,978</u>	<u>390,678</u>
Total assets	<u>\$407,175</u>	<u>\$375,640</u>	<u>\$782,815</u>

LIABILITIES AND NET ASSETS

CURRENT AND ACCRUED LIABILITIES

Accounts payable	\$121,097	\$543,184	\$664,281
Other current and accrued liabilities	7,342	6,108	13,450
Total current and accrued liabilities	<u>128,439</u>	<u>549,292</u>	<u>677,731</u>

DEFERRED REVENUE

19,050	30,600	49,650
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NET ASSETS

Invested in capital assets, net of related debt	67,475	324,662	392,137
Unrestricted	192,211	(528,914)	(336,703)
Total net assets	<u>259,686</u>	<u>(204,252)</u>	<u>55,434</u>
Total liabilities and net assets	<u>\$407,175</u>	<u>\$375,640</u>	<u>\$782,815</u>

The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2007

Exhibit B

	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>
<u>OPERATING REVENUES</u>			
Sale of cable services:			
Basic cable	\$ -	\$200,213	\$200,213
Premium channels	-	10,647	10,647
Sale of telephone services:			
Local	228,881	-	228,881
Long distance	30,493	-	30,493
Access fees	138,490	-	138,490
Internet	-	138,834	138,834
Miscellaneous	10,278	5,577	15,855
Total operating revenue	<u>408,142</u>	<u>355,271</u>	<u>763,413</u>
<u>OPERATING EXPENSES</u>			
Cost of service and operation expense:			
Wages and benefits	20,068	33,410	53,478
Supplies	8,251	12,004	20,255
Utilities	6,767	6,767	13,534
Other expenses	2,313	3,357	5,670
Circuit fees	19,993	-	19,993
Basic CATV programming	-	123,100	123,100
Premium channel programming	-	8,573	8,573
Internet fees	-	57,069	57,069
Cab fees	59,357	-	59,357
Switching fees	84,446	-	84,446
Long distance fees	24,237	-	24,237
Access fees	22,534	-	22,534
Billing fees	20,437	-	20,437
Transport fee	4,089	-	4,089
Depreciation	3,657	11,189	14,846
Joint use fees	30,000	80,000	110,000
Total cost of service and operation expense	<u>306,149</u>	<u>335,469</u>	<u>641,618</u>
Distribution expenses:			
Wages and benefits	3,353	109	3,462
Operating expenses and supplies	4,729	1,272	6,001
Depreciation	4,452	68,242	72,694
Total distribution expenses	<u>12,534</u>	<u>69,623</u>	<u>82,157</u>
Administrative and general expense:			
Wages and benefits	44,555	35,721	80,276
Office supplies and postage	3,691	3,703	7,394
Insurance -- employees	6,169	9,421	15,590
Insurance -- general	5,171	5,029	10,200
Professional fees	9,409	5,126	14,535
Telephone	3,103	1,203	4,306
Technical support	3,471	3,471	6,942
Advertising	4,992	1,596	6,588

(Continued)

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2007

Exhibit B  
(Continued)

	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>
<u>OPERATING EXPENSES</u> -- (Continued)			
Administrative and general expense: - (Continued)			
Dues and subscriptions	\$ 1,275	\$ 603	\$ 1,878
Meeting and travel	240	240	480
Bad debts	566	1,312	1,878
Other expense	2,458	3,090	5,548
Depreciation	<u>588</u>	<u>588</u>	<u>1,176</u>
Total administrative and general expense	<u>85,688</u>	<u>71,103</u>	<u>156,791</u>
Total operating expenses	<u>404,371</u>	<u>476,195</u>	<u>880,566</u>
Operating income (loss)	3,771	(120,924)	(117,153)
Net assets, beginning of year	<u>255,915</u>	<u>(83,328)</u>	<u>172,587</u>
Net assets, end of year	<u>\$259,686</u>	<u>\$(204,252)</u>	<u>\$ 55,434</u>

The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2007

Exhibit C

	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Cash received from customers	\$425,404	\$358,257	\$783,661
Cash paid to suppliers	(295,513)	(245,369)	(540,882)
Cash paid to employees	(67,953)	(68,061)	(136,014)
Net cash provided by operating activities	<u>61,938</u>	<u>44,827</u>	<u>106,765</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Additions to utility plant	<u>(296)</u>	<u>(19,463)</u>	<u>(19,759)</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>			
	61,642	25,364	87,006
Cash and cash equivalents at beginning of year	<u>226,390</u>	<u>(6,424)</u>	<u>219,966</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>			
	<u>\$288,032</u>	<u>\$ 18,940</u>	<u>\$ 306,972</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:</u>			
Operating income (loss)	<u>\$ 3,771</u>	<u>\$(120,924)</u>	<u>\$(117,153)</u>
Adjustments to reconcile operating income (loss) to cash provided by operations:			
Depreciation	8,697	80,019	88,716
Changes in assets and liabilities:			
Decrease in accounts receivable	17,967	345	18,312
Increase in prepaid expenses	(502)	(463)	(965)
Increase in accounts payable	33,141	81,904	115,045
Increase (decrease) in other liabilities	<u>(1,136)</u>	<u>3,946</u>	<u>2,810</u>
Total adjustments	<u>58,167</u>	<u>165,751</u>	<u>223,918</u>
Net cash provided by operating activities	<u>\$ 61,938</u>	<u>\$ 44,827</u>	<u>\$ 106,765</u>

The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alta Municipal Broadband Communications Utility is a component unit of City of Alta. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Alta Municipal Broadband Communications Utility provides telephone, cable, and internet services to consumers in Alta, Iowa. Sale of cable, internet, and telephone services are billed on the 25<sup>th</sup> of each month for service through the end of the following month. Consequently, billings in the amount of \$49,650 (\$47,714 at December 31, 2006) for the month of January have been recorded as deferred revenue. Alta Municipal Broadband Communications Utility is billed by their telephone, cable, and internet providers on a calendar month basis.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reporting Entity

For financial reporting purposes, Alta Municipal Broadband Communications Utility has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Alta Municipal Broadband Communications Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Alta Municipal Broadband Communications Utility are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents - Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Utility Plant - Utility plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Provisions for depreciation of distribution plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Compensated Absences - Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2007.

Budgets and Budgetary Accounting - The Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing in accordance with the Code of Iowa. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following is a comparison of revenues, expenses, and changes in net assets - actual to budget:

	<u>Actual</u>	<u>Budgeted Amounts</u>	<u>Budget to Actual Variance</u>
Revenues:			
Charges for services	\$ 747,558	\$ 817,955	\$ (70,397)
Miscellaneous	<u>15,855</u>	<u>11,250</u>	<u>4,605</u>
	763,413	829,205	(65,792)
Expenses	<u>880,566</u>	<u>1,014,878</u>	<u>134,312</u>
Net	(117,153)	(185,673)	68,520
Net assets, beginning of year	<u>172,587</u>	<u>437,531</u>	<u>(264,944)</u>
Net assets, end of year	<u>\$ 55,434</u>	<u>\$ 251,858</u>	<u>\$ (196,424)</u>

2. DEPOSITS

The Utility's deposits in banks at December 31, 2007, were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397, days but the maturities shall be consistent with the needs and use of the Utility.

The Utility had no investments meeting the disclosure requirements of *Governmental Auditing Standards Board* Statement Number 3, as amended by Statement Number 40.

3. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<u>Telephone</u>				
Plant and equipment	\$ 136,129	\$ 296	\$ -	\$ 136,425
Depreciation	<u>60,253</u>	<u>8,697</u>	<u>-</u>	<u>68,950</u>
Capital assets, net	<u>\$ 75,876</u>	<u>\$ (8,401)</u>	<u>\$ -</u>	<u>\$ 67,475</u>
<u>CATV &amp; Internet</u>				
Plant and equipment	\$ 763,986	\$ 66,576	\$ -	\$ 830,562
Depreciation	<u>425,881</u>	<u>80,019</u>	<u>-</u>	<u>505,900</u>
Capital assets, net	<u>\$ 338,105</u>	<u>\$ (13,443)</u>	<u>\$ -</u>	<u>\$ 324,662</u>

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

4. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% (3.70% through June 30, 2007) of their annual covered salary and the Utility is required to contribute 6.05% (5.75% through June 30, 2007) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ending December 31, 2007, 2006, and 2005, were \$6,771, \$6,331, and \$6,263, respectively, equal to the required contribution for each year.

5. RISK MANAGEMENT

Alta Municipal Broadband Communications Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

6. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Alta, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

7. RELATED PARTY TRANSACTION

Pursuant to Iowa Code Chapter 28E.18 concerning the joint use of facilities through sharing agreements, the Alta Municipal Broadband Communications Utility and the Alta Municipal Utilities have entered into an agreement whereby the Communications Utility shall pay the Electric Utility the sum of \$110,000 (accrued monthly) on or before the first day of May each year for the use of a portion of the Communications distribution system for the previous calendar year. The term of this agreement is forty years and payments are due May 1 of each year. In February, 2008, the amount was adjusted to \$80,000 to be effective January 1, 2008.

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Board of Trustees  
Alta Municipal Broadband Communications Utility  
Alta, Iowa

The primary purpose of our examination was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not considered necessary for fair presentation of the financial statements is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

July 8, 2008

*Hunzelman, Putzier & Co.*

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
SCHEDULE OF COMMUNICATIONS PLANT  
DECEMBER 31, 2007

Schedule 1

	Utility Plant			Depreciation Rate	Accumulated Depreciation		
	Balance January 1, 2007	Additions	Balance December 31, 2007		Balance January 1, 2007	Expense	Balance December 31, 2007
<u>TELEPHONE PLANT</u>							
Buildings	\$ 60,404	\$ -	\$ 60,404	2.50%	\$ 9,689	\$ 1,510	\$ 11,199
Distribution system	20,587	-	20,587	5.00-14.29	16,181	2,942	19,123
Other physical property	<u>55,138</u>	<u>296</u>	<u>55,434</u>	10.00-20.00	<u>34,383</u>	<u>4,245</u>	<u>38,628</u>
Total telephone plant in service	<u>136,129</u>	<u>296</u>	<u>136,425</u>		<u>60,253</u>	<u>8,697</u>	<u>68,950</u>
<u>CABLE AND INTERNET PLANT</u>							
Buildings	120,808	-	120,808	2.50	19,378	3,020	22,398
Distribution system	517,875	23,650	541,525	5.00-14.29	349,431	65,222	414,653
Other physical property	<u>125,303</u>	<u>42,926</u>	<u>168,229</u>	10.00-20.00	<u>57,072</u>	<u>11,777</u>	<u>68,849</u>
Total cable and internet plant in service	<u>763,986</u>	<u>66,576</u>	<u>830,562</u>		<u>425,881</u>	<u>80,019</u>	<u>505,900</u>
Total plant	<u>\$900,115</u>	<u>\$66,872</u>	<u>\$966,987</u>		<u>\$486,134</u>	<u>\$88,716</u>	<u>\$574,850</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Alta Municipal Broadband Communications Utility  
Alta, Iowa

We have audited the accompanying financial statements of Alta Municipal Broadband Communications Utility, as of and for the year ended December 31, 2007, and have issued our report thereon dated July 8, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (B), and (C) are material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Alta, Iowa and other parties to whom Alta Municipal Broadband Communications Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

July 8, 2008

*Hendelman, Putzier & Co.*

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2007

Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The Utilities will continue to cross-train office employees in an attempt to alleviate the problem. This problem may never be one hundred percent cured due to the limited amount of employees to perform the duties.

Conclusion - Response accepted.

- (B) Electronic Data Processing Systems - During our review of internal control, the existing control activities in the Utility's computer-based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Utility's computer-based systems were noted:

The Utility does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/passwords periodically,
- ensuring that only software licensed to the Utility is installed on computers,
- requiring user profiles to help limit access to programs to those who have a legitimate need.

Also, the Utility does not have a written disaster recovery plan.

Recommendation - The Utility should develop written policies addressing the above items in order to improve the Utility's control over computer based systems and a written disaster recovery plan should be developed.

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2007

Findings Related to the Financial Statements: (Continued)

SIGNIFICANT DEFICIENCIES: (Continued)

(B) Electronic Data Processing Systems - (Continued)

Response - The Utilities will develop written policies as time allows.

Conclusion - Response accepted.

(C) Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for Utility board members to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

Response - Management was hired because of their expertise in utility operations inside and outside of the office, and their ability to work with specialized professional people. The utility has no plans on hiring additional people or replacing the existing staff. Therefore, the utility will place their trust in the ability of the auditing firm to prepare year-end financial statements.

Conclusion - Response accepted.

Other Findings Related to Statutory Reporting:

- (1) Budget - Utility expenditures during the year ended December 31, 2007 did not exceed the amounts budgeted.
- (2) Questionable Expenditures - We noted no expenditures which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- (4) Business Transactions - We noted no business transactions between the Utility and Utility officials or employees.
- (5) Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2007

Other Findings Related to Statutory Reporting: (Continued)

- (6) Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- (7) Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.
- (8) Telecommunications Services - No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.